

## Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 SP-02 USIA-06 AID-05 EB-08 NSC-05

SS-15 STR-04 OMB-01 CEA-01 L-03 H-01 PA-01 PRS-01

CIAE-00 COME-00 FRB-03 INR-07 NSAE-00 XMB-02

OPIC-03 LAB-04 SIL-01 AGRE-00 /084 W

-----241757Z 081025 /53

R 241652Z MAR 77

FM AMEMBASSY MEXICO

TO SECSTATE WASHDC 1033

INFO TREASURY WASHDC

C O N F I D E N T I A L SECTION 01 OF 02 MEXICO 03581

E.O.11652:GDS

TAGS:EFIN MX

SUBJECT: MEXICAN BANKERS CONVENTION

REF" (A) MEXICO 3051; (B) MEXICO 3227

1. SUMMARY: PRIOR TO BANKERS CONVENTION MEXICAN PRESS WAS FORECASTING THAT A MAJOR ECONOMIC PROGRAM WOULD BE ANNOUNCED. WHILE MEASURES MENTIONED IN FINANCE MINISTER'S SPEECH REPRESENT SOME DEGREE OF PROGRESS IN COPING WITH MEXICO'S ECONOMIC PROBLEMS, NO NEW BUDGETARY POLICIES WERE ANNOUNCED, NOR DID GOM SPOKESMEN PROVIDE ANY FURTHER GUIDANCE ON WHY THE PESO MUST FLOAT AND WHERE IT MIGHT GO. END SUMMARY.

2. MEXICAN BANKERS CONVENTION IS PROBABLY THE MOST SIGNIFICANT FINANCIAL GATHERING IN MEXICO. THIS YEAR'S CONVENTION WAS SAID TO HAVE ATTRACTED A RECORD NUMBER OF FOREIGN AND DOMESTIC BANKERS. THE PRESS WAS FORECASTING A MAJOR PACKAGE OF ECONOMIC AND FINANCIAL MEASURES. WHILE FINANCE MINISTER MOCTEZUMA ANNOUNCED A SIX MEASURE PACKAGE, HE DID NOT SAY ANYTHING THAT COULD BE INTERPRETED AS CHANGING BUDGETARY POLICY, NOR DID HE

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OR THE BANK OF MEXICO DIRECTOR GENERAL PROVIDE ANY FURTHER GUIDANCE ON EXCHANGE RATE POLICY. WAGE POLICY WAS NOT DISCUSSED.

3. THE SIX MEASURES ANNOUNCED BY MOCTEZUMA WERE: (A) PERMIT PESO INTEREST RATES TO BE FIXED BY MARKET CONDITIONS AND TIE INTEREST RATES ON MEX DOLLARS MORE

CLOSELY TO INTERNATIONAL RATES; (B) REFORM LEGAL RESERVE REQUIREMENTS IN ORDER TO PERMIT BANKS TO USE A LARGER PORTION OF NEW DEPOSITS FOR CREDIT TO THE PRIVATE SECTOR, "PREFERABLY FOR ACTIVITIES WITHIN THE ALLIANCE FOR PROGRESS; (C) TIGHTEN RESTRICTIONS ON LOANS TO ONE BORROWER AND DEPOSITS FROM ONE LENDER IN ORDER TO AVOID EXCESSIVE DEPENDENCE BY A BANK ON ONE LENDER OR BORROWER' (D) DEFINE MORE CLEARLY WHICH SECURITIES SOLD TO THE PUBLIC THROUGH THE STOCK EXCHANGE BENEFIT FROM CERTAIN TAX ADVANTAGES AND MAKE GREATER RESOURCES AVAILABLE TO SECURITY HOUSES FROM BANKS; (E) SILVER COINS WILL SOON BE PUT INTO CIRCULATION. (SEE 76 MEXICO 15939); (F) PETROBONDS WILL BE ISSUED AT END-APRIL AND WILL, CONTRARY TO PREVIOUS INFORMATION, HAVE A THREE YEAR MATURITY. (SEE MEXICO 2882). ROMERO KOLBECK ADDED A SEVENTH MEASURE, A TWO BILLION PESO CREDIT FACILITY TO FACILITATE THE PRODUCTION OF THE 90 BASIC PRODUCTS (SEE MEXICO 1018). HE DID NOT ELABORATE ON WHAT FORM THIS WOULD TAKE.

4. WHILE MOCTEZUMA SAID THAT ONE OF THE BASIC ASPECTS OF THE GOM'S ECONOMIC POLICY WAS THE "CONTROL OF INFLATION, AS MUCH TO AVOID ITS ACCELERATION AS TO ACHIEVE, IN GRADUAL FORM, A REDUCTION." FOLLOWING THE ABOVE STATEMENT, HE SAID, "THE PUBLIC SECTOR IS READY TO MEET ITS RESPONSIBILITY IN THIS FIGHT, FUNDAMENTALLY THROUGH THE RECONSTITUTION OF PUBLIC SAVING IN ORDER TO FINANCE IN A HEALTHY FORM INVESTMENT AND THE GENERATION OF JOBS. FOR THIS, ONE OF THE FUNDAMENTAL MEANS CONSISTS IN REDUCING

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THE PROPORTION OF ITS GLOBAL DEFICIT, TO PUT EMPHASIS ON THE CONTROL OF CURRENT SPENDING AND TO PROVIDE TO THE STATE REAL RESOURCES THROUGH A SUITABLE PUBLIC INCOME POLICY." THERE WAS NO MENTION OF REDUCING SPENDING IN HIS SPEECH, BUT THE FINANCE MINISTER WAS ASKED AT A SUBSEQUENT PRESS CONFERENCE IF THIS MIGHT NOT BE NECESSARY. HE REPORTEDLY RESPONDED THAT WHILE THE BUDGET MAY APPEAR HIGH, IT WAS NOT REALLY, ADDING THAT IT IS AIMED AT SUPPORTING BASIC ACTIVITIES AND AVOIDS ANY SUPERFLUOUS SPENDING.

5. ANOTHER SUBJECT THAT WAS NOTABLE FOR THE LACK OF SPECIFICS WAS THE EXCHANGE SYSTEM. BOTH MOCTEZUMA AND ROMERO KOLBECK SAID THAT THE PESO WOULD CONTINUE TO FLOAT AND THAT FREE CONVERTIBILITY WOULD BE MAINTAINED. THEY NEVER ADDRESSED THE REASONS FOR THE FLOAT, NOR DID THEY INDICATE WHAT FACTORS MIGHT INFLUENCE THE RATE OVER THE FUTURE. ROMERO KOLBECK SAID ONLY THAT THE FLOATING RATE "TENDS TO REFLECT WITH GREATER REALITY OUR POSITION

RELATIVE TO THE EXTERIOR." HE ALSO NOTED THAT AN  
"INCIPIENT AND VERY LIMITED" FUTURES MARKET HAD BEGUN,  
BUT ANNOUNCED NO GOVERNMENT MEASURES TO FOSTER SUCH A  
MARKET. MOCTEZUMA SAID THE PESO WOULD CONTINUE TO FLOAT.  
HE TOLD A REPORTER THAT "CURRENTLY, ALL THE WORLD'S  
CURRENCIES ARE SUBJECT TO VARIATION THEREFORE MEXICO  
CANNOT WITHDRAW FROM THESE PARAMETERS, AS MUCH FOR  
INTERNAL AS EXTERNAL REASONS." HE ADDED THAT "WE COULD  
NOT MAKE A DETAILED EXAMINATION OF THE ADVANTAGES OR  
DISADVANTAGES OF A FLOATING PESO OR A FIXED PARITY. IT IS  
ENOUGH TO SAY THAT WE WOULD GO COUNTER TO THE WORLD

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SS-15 STR-04 OMB-01 CEA-01 L-03 H-01 PA-01 PRS-01  
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SITUATION IF WE TRIED TO FIX THE PARITY."

6. PERHAPS THE MOST INTERESTING SPEECH WAS THAT OF  
EUGENIO ERANA, THE INCOMING PRESIDENT OF THE BANKERS  
ASSOCIATION. HE MADE A VERY STRONG ANTI INFLATION  
STATEMENT WITH PARTICULAR EMPHASIS ON THE IMPACT OF  
INFLATION ON ECONOMIC GROWTH AND POLITICAL STABILITY.  
HE ALSO SPOKE OUT AGAINST PRICE CONTROLS NOTING THAT THEY  
DO NOT REDUCE INFLATIONARY PRESSURES. HIS SPEECH, MADE  
AT THE CLOSING SESSION, WAS WARMLY APPLAUDED.

7. THE GOM RELEASES A CURRENT RESERVE FIGURE ONLY TWICE  
A YEAR, AT THE BANKERS CONVENTION AND IN THE PRESIDENT'S  
SEPTEMBER 1 STATE OF THE UNION ADDRESS. ROMERO SAID  
RESERVES AS OF MARCH 11, WERE \$1,617 MILLION, "AFTER  
HAVING LIQUIDATED LOANS FROM THE FEDERAL RESERVE AND  
U.S. TREASURY."

8. TWO THEMES PREVAILING IN THE SPEECHES OF FINANCE MINISTERS AND BANK OF MEXICO DIRECTOR WERE THE NEED TO GENERATE INTERNAL SAVINGS AND NEW JOBS. ROMERO CRITICIZED THE OLD "GROWTH WITH STABILITY" POLICIES AS HAVING GENERATED EXCESSIVE FOREIGN INDEBTEDNESS AND TOO FEW JOBS.  
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THE IMPACT OF THE MEASURES ANNOUNCED LAST WEEK WOULD APPEAR TO BE LIMITED, AT LEAST DURING THE CURRENT YEAR. THE LOWERING OF INTEREST RATES ON MEX DOLLAR DEPOSITS MIGHT DISCOURAGE SAVINGS IN THIS FORM. LIKEWISE THE REDUCTION IN INTEREST RATES ON "FINANCIAL BONDS" COULD POSSIBLY DISCOURAGE SAVINGS IN THIS INSTRUMENT. WHETHER THE MONEY WOULD SWITCH TO A LONGER TERM PESO INSTRUMENT OR TO DOLLARS IS UNKNOWN, BUT THE MEXICANS DO SEEM TO BE RUNNING SOME RISKS IN THEIR INTEREST RATE REFORM, PARTICULARLY IF THEY MOVE SLOWLY IN INCREASING INTEREST RATES ON PESO TERM INSTRUMENTS.

9. THE LEGAL RESERVE REQUIREMENT CHANGES MIGHT COMPLICATE FINANCING OF THE PUBLIC SECTOR DEFICIT AS THESE REQUIREMENTS PROVIDE MUCH OF THE DOMESTIC FINANCING. ON THE OTHER HAND, THE GOM IS GOING DIRECTLY TO THE PUBLIC FOR FUNDS IN THE FORM OF PETRO BONDS AND TREASURY UNDER SECRETARY DE LA MADRID INDICATED THAT PUBLIC SECTOR MAY GO DIRECTLY TO THE CAPITAL MARKET FOR FUNDS.

10. THE LACK OF ANYTHING NEW ON BUDGET POLICY IS DISAPPOINTING. WHILE ONE HEARS STORIES OF CURRENT SPENDING CUTBACKS THERE IS NO PUBLIC STATEMENT TO THIS EFFECT AND MOCTEZUMA'S STATEMENTS ON THIS SUBJECT WERE VERY BLAND. THE SIZE OF THE BUDGET DEFICIT HAS BEEN ONE OF THE MAJOR CONCERNS OF FOREIGN BANKERS.

11. ALSO DISAPPOINTING WAS THE LACK OF A MORE DETAILED EXPLANATION FOR THE REASONS THAT THE PESO IS FLOATING AND THE DIRECTION IT MIGHT TAKE. THIS IS NOT WELL UNDERSTOOD BY MANY LOCAL AND FOREIGN BUSINESSMEN AND IS OFTEN CITED AS A HINDRANCE TO INCREASED FOREIGN PRIVATE INVESTMENT. AS IS OFTEN THE CASE IN MEXICO, THE NEED TO CONTINUE TO FLOAT IS ATTRIBUTED TO FOREIGN MORE THAN DOMESTIC FACTORS.

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12. A NUMBER OF ATTENDEES COMMENTED THAT THE ATMOSPHERE AT THIS YEAR'S CONVENTION WAS MUCH BETTER THAN IN THE PAST SEVERAL YEARS UNDER ECHEVERRIA. LOPEZ PORTILLO WAS WARMLY RECEIVED BY THE CONVENTION AND THERE WAS A SENSE THAT THE COUNTRY WAS MOVING IN THE RIGHT DIRECTION EVEN IF ECONOMIC POLICIES WERE NOT COMPLETELY TO THE SATISFACTION OF ALL THE ATTENDEES. THOMPSON

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**Review Markings:**  
Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
22 May 2009  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009